

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 SP-02 USIA-15

AID-05 NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04

OPIC-06 LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 ITC-01

/115 W

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R 211306Z OCT 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6785

INFO AMEMBASSY BRUSSELS

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

UNCLAS SECTION 01 OF 02 LONDON 16881

PASS AGRICULTURE

E.O.11652: N/A

TAGS: EAGR UK

SUBJECT: COMMISSIONER LARDINOIS RENEWS PRESSURE FOR
GREEN POUND DEVALUATION

BEGIN SUMMARY: ON A VISIT TO LONDON ON OCTOBER 19,
LARDINOIS AGAIN CALLED FOR A UK GREEN POUND DEVALUATION.
HE SAID COMMISSION COULD CONSIDER OTHER MEASURES TO HELP
UK FIGHT INFLATION AND WOULD ACCEPT A PHASED DEVALUATION
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BUT SUBSIDIES FOR UK IMPORTS ON PRESENT SCALE COULD NOT

CONTINUE UNABATED WITHOUT THREATENING THE WHOLE CAP
STRUCTURE. BUT ON OCTOBER 20 UK AGRICULTURE MINISTER
SAID THIS WAS NOT THE RIGHT TIME TO DEVALUE AND HE WILL
AGAIN REFUSE TO DO SO AT NEXT MINISTERS' MEETING.
END SUMMARY.

1. EC AGRICULTURE MINISTER -ARDINOIS SPOKE IN LONDON ON
OCTOBER 19 AT A GUILD OF AGRICULTURE JOURNALISTS' LUNCH
AND LATER HAD A PRIVATE MEETING WITH UK MINISTER OF
AGRICULTURE, JOHN SILKIN. LARDINOIS TOLD THE JOURNALISTS
HE HAD COME TO MAKE A PERSONAL APPEAL FOR A GREEN POUND
DEVALUATION. THE 4.5 PERCENT DEVALUATION REJECTED BY UK
AT LAST AGRICULTURE MINISTERS' MEETING WOULD NOW ALREADY
NEED TO BE OVER 6 PERCENT TO ACCOMPLISH COMPARABLE MCA
SAVINGS BECAUSE OF SUBSEQUENT FALL IN STERLING.
LARDINOIS IS THEREFORE NOW PROPOSING A 6.2 PERCENT
DEVALUATION.

2. HE ACKNOWLEDGED THE IMPOSSIBILITY OF ALIGNING GREEN
POUND WITH THE FULL FALL IN STERLING. THE DISCREPANCY
NOW APPROACHES 38 PERCENT. ANY MOVE FAILING TO
COMPENSATE FOR THE GAP WOULD RAISE UK PRICES OF CAP
PRODUCTS BY NEARLY 30 PERCENT. LARDINOIS SAID HE
RECOGNISED THE IMPOSSIBILITY OF THIS IN VIEW OF UK'S
PROBLEMS WITH INFLATION AND THE NEED TO MAINTAIN THE
SOCIAL CONTRACT'S INCOME RESTRAINTS. BUT PHASED CHANGES
BEGUN NOW WOULD MINIMISE THE EVENTUAL HARMFUL EFFECTS OF
HIGHER FOOD PRICES.

3. HE SAID GREEN POUND MUST BE ALLOWED TO CONTINUE ITS
ROLE AS SHORT-TERM BUFFER AGAINST FALL IN STERLING BUT
SUBSIDY COST OF MCA'S MUST BE DIMINISHED. FURTHER-
MORE. CORRESPONDINGLY LOW PRICES RECEIVED BY UK FARMERS
COULD HAVE SERIOUS EFFECTS ON PRODUCTION PROBLEMS OF
BRITISH AGRICULTURE WHICH COULD TAKE YEARS TO SOLVE IF
GREEN RATE CHARGES COME TOO SLOWLY.

4. LARDINOIS WAS ANXIOUS TO REASSURE UK CONSUMERS THAT
THE EC WAS NOT TRYING TO PUSH UP UK FOOD PRICES AND SAID
GREEN POUND OPERATIONS WERE IN FACT DOING THE CONTRARY.
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FM AMEMBASSY LONDON

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5. IF GREEN POUND DEVALUATION AGREED, EC COULD CONSIDER OTHER SPECIAL TREATMENTS FOR UK AIMED AT CUSHIONING INFLATIONARY PRESSURES. HE CITED ELIMINATION OF REMAINING UK TARIFFS ON IMPORTS OF CAULIFLOWERS. CABBAGE. CELERY. PEAS AND CARROTS PLUS EC HELP WITH CONSUMER SUBSIDIES ON BUTTER AND BEEF.

6. ON OCTOBER 20 UK AGRIC-LTURE MINISTER SILKIR SAID HIS MEETING WITH LARDINOIS HAD BEEN AMICABLE BUT REFUSED TO
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BE DRAWN FURTHER BEYOND SAYING IT WOULD BE WRONG TO
DEVALUE NOW BECAUSE OF EFFECT ON PRICES. HE WILL AGAIN
REFUSE TO DEVALUE AT NEXT EC AGRICULTURE MINISTERS'
MEETING.

COMMENT: LARDINOIS PRESSURE FOR GREEN POUND DEVALUATION
HIGHLIGHTS HMG DILEMMA BETWEEN RESTRAINING NEW SERIOUS
INFLATIONARY PRESSURES NOW OR STORING UP POTENTIALLY
FUTURE PRICE EXPLOSION IF EVENTUAL GREEN POUND ADJUST-
MENT COINCIDES WITH FINAL UPWARD PRICE MOVES OF END OF
TRANSITION PERIOD ALONGSIDE POSSIBLY HIGHER EC 1977-78
PRICES AND FULL PASSING THROUGH INTO RETAIL PRICES
GENERALLY OF FALL IN STERLING THROUGH HIGHER IMPORT
PRICES. BRITISH FARMERS WILL, OF COURSE, APPLAUD
LARDINOIS PLEA BUT THEY WILL VIEW WITH LESS ENTHUSIASM
HIS SUGGESTION ON ELIMINATING TARIFFS ON VEGETABLES.
THE HORTICULTURE SECTOR IS AN AREA WHERE UK FARMERS'
ENTHUSIASM FOR FULL IMPLEMENTATION OF EC REGIMES IS
DISTINCTLY LACKING.

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